1:Stanford U. S-4, 5 1956 AF12 North China AF12

Annex "A," Subparagraph 3d,
Economic Background

BANKING AND CURRENCY[1]

I. THE ELIMINATION OF THE OLD BANKING STRUCTURE

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366 Before discussing the banking structure in North China, it is necessary to discuss briefly the shift of China's banking center from Shanghai to Peking/

In pre-Nationalist days there were two chief banking centers in China -- Peking and Shanghai. Peking was the location of the head offices of the Bank of China and of the Bank of Communications the two semi-government banks and a few important modern banks in addition to the native banks. The major foreign banks had special representatives in their Peking branches who were in charge of negotiations with the Peking government (not to be confused with the Peking regime of today). Shanghai was the headquarters for foreign banks as well as a number of modern Chinese banks and many native banks.

In 1928, as soon as the Nationalist Government was set up in Nanking, the head offices of the Bank of China and the Bank of Communications and of the major Chinese modern banks

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1. Unless otherwise indicated, specific information in this chapter is based on private information from the author, Dr. K. N. Chang.

were transferred to Shanghai. Moreover, the head office of the Central Bank of China, a government institution founded in 1928, was also located in Shanghai. Thus Shanghai became the sole banking center of China.

In October 1949, when the Communists had established their central government in Peking, they prepared to make Peking the center of major banking activities. The head office of the People's Bank of China was set up there, and the head offices of the Bank of China and of the Bank of Communications were ordered to return. When, toward the end of 1952 the old banking structure in Shanghai was completely eliminated, the Communists' goal was reached and Peking had become the financial center of China.

The fact that North China had neither been a stronghold of foreign banking in China nor a bulwark of Chinese commercial banking facilitated the Communists' task of eliminating the old banking structure in the area. Tientsin, for example had been an important North China banking center, comparable to Shanghai in East China, but the number resources, and volume of business of Tientsin banks had been much smaller than the comparable figures in Shanghai. For example, the amount of deposits in Chinese Commercial banks in pre-Communist days in Tientsin seldom exceeded one-tenth of that of the banks in Shanghai. In Hopei there had been a few branches of government and modern commercial banks only, and the local registered commercial

and native banks were of no consequence. Furthermore, severe restriction had been imposed on all foreign banks in Tientsin and Peking during the Japanese occupati on, and operations there had hardly been resumed before the Communists overran North China.

Shansi Province had been under the control of a warlord until the Communists assumed control. It had been the warlord's policy to concentrate the main banking business in the hands of the Shansi Provincial Bank, and to keep outside banks from extending their activities in his province. As a result with the exception of one branch of each of the government banks, all in the provincial capital, there were virtually no modern commercial banks represented in Shansi.

As soon as the Communists occupied Peking, Tientsin, and other cities of Hopei Province, they closed down the branches of the Central Bank of China and of the Farmers Bank of China; branches of the Bank of China and the Bank of Communications were placed under government supervision, assisted by certain staff members who belonged to the Communist Party. In April 1949, regulations governning private banks were issued; these restricted the banks' operations and interest rates. The amount of reserves to be kept with the People's Bank and the forms of frequent periodical reports were so stringently stipulated that few of the banks could profitably operate. Immediately after the effective date

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of the new regulations, the locally registered commercial banks and more than half of the 85 native banks were forced to close because they were unable to increase their capital as required. The rest of the banks were strictly controlled by means of their periodic reports, and with the co-operation of the Communists on their staff.

The banks which survived the initial regulations were advised to form groups for the purpose of making joint loans. In Tientsin, for example, two groups were organized by commercial banks and one group by all the native banks as a result of this "advice." In so encouraging the formation of larger aggregates, the Communists aimed to force out the smaller banks and prepare for the final amalgamation of the larger ones, thus establishing the pattern to be followed in other areas.

In September 1950, all the native banks remaining in Peking were advised to discontinue their business and transfer their capital to the Peking Municipality Hsing Yeh Joint Stock Investment Corporation, a joint public-private organization. At the end of 1951 the surviving 29 native banks in Tientsin were directed to merge into one bank, in which government capital would participate. The commercial banks remaining in Peking and Tientsin at that time were mostly branches of banks with head offices in Shanghai; they were automatically converted into joint public-private organizations as their head offices underwent

453 366 that transformation. A final merger of all branches into a single joint state-private bank occurred in December 1952.

Eliminating the old banking structure in Shansi Province was a much simpler and swifter process. The Communists took over the Shansi Provincial Bank and confiscated the few commercial banks, giving as reason that their capital was owned by "reactionaries." The native banks were forced out at about the same time by requiring them to increase their capital.

457 Foreign banks had operated in only two cities in North China, Tientsin and Peking. Early in the Communist regime, they had the illusion that they might be of service by providing export-financing facilities, thus greatly contributing to the attainment of the Communist goal of increased exports so essential to the economic life of North China. But these banks found themselves without functions as soon as foreign exchange operations were concentrated in the Bank of China. Foreign trade business gradually became a monopoly ofthe government trading organizations. Beginning late in 1951, the foreign banks separately applied for approval to withdraw from China. Though some of them had not received such approval as late as 1954, all foreign banks discontinued operations before the end of 1951.

453 Accordingly, the elimination of the old banking structure in North China was virtually com-

2: Gamble S-5 (1926-1933)1954 AF 12 North China AF12

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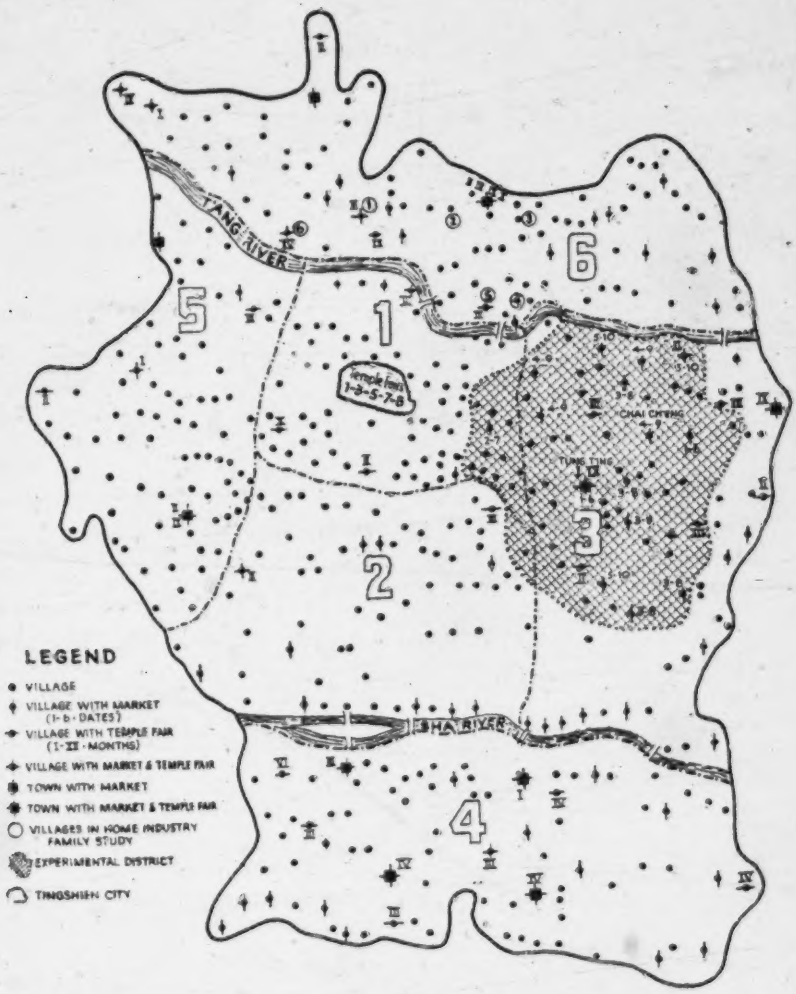

FIGURE 1. MAP OF TING HSIEN